

## **TAX CREDIT SUPPLEMENT FORM**

### **IMPORTANT**

**The following must be included with your application at submission to be considered complete:**

- **Uniform Application (Sections A, B and C)**
- **Application Fee**
- **Narrative addressing twelve development criteria**
- **Tax Credit Supplement Application (Sections A, B, C and D)**
- **Exhibit A and Exhibit B**
- **All appendices required by Uniform Application**
- **All appendices required by Tax Credit Supplement**

The cover page of the “Tax Credit Supplement Application” gives a detailed list and the required order of an application being submitted to the Low Income Housing Tax Credit Program. Please use this sheet and the cover sheet of the supplement as a checklist to assure that you have included all material needed to meet the requirements of the program.



## **Confidential Information Notice**

The Board of Housing is an agency of state government and therefore subject to Article II, Sect. 9, 1972 Montana Constitution, otherwise known as the "right to know." For this reason, documents submitted to the Board by third parties are, generally, open to public review. Therefore, your application and any subsequent documents you submit to the Board may be subject to inspection and copying by an interested member of the public.

The right to know is not absolute and is limited by the companion section, Article II, Sect. 10, 1972 Montana Constitution, otherwise known as the "right to privacy." Some of the documents you submitted in your application may be protected from public review under that section for a variety of reasons.

The Board of Housing is unable to determine which documents, if any, you submitted to the Board may be kept private under Article II, Sect. 10. Thus, we request that if there are any documents contained in your application which you consider confidential and which you want withheld from public disclosure, you must identify those documents for us within 7 days.

You should know that the Montana Supreme Court has severely restricted the type of information which may be withheld from the public. For that reason you should consult with your legal counsel to determine which documents may be protected and for what reason. We cannot accept a response that your entire application is confidential. In such a case, we will deem the entire application subject to public disclosure.

If you designate portions of your application as confidential, the Board staff will take reasonable efforts to protect those documents from public disclosure. Upon receiving a request to review any confidential documents contained in your application, the Board staff will notify you of the request by telephone and facsimile (at numbers you provide us), identify the party making the request, and the stated purpose for the request. It will be your duty to obtain a court order protecting your documents from release. If the Board does not receive a court order within 7 working days from the day the request is received by the Board, the documents will be released to the person requesting them. The Board of Housing and its staff will not assert that right for you or on your behalf in a court of law.

This procedure is being implemented because of the increasing number of requests to access our files, yet realizing that some information in those files may not be appropriate for public disclosure. This notice is provided so that you may designate documents in your submitted application as confidential and defend their confidentiality if the need arises. Each page considered confidential must be clearly marked "Confidential".

Documents not marked confidential will be released according to the information request and release procedures of the Board without notification to the applicant.

# **TAX CREDIT SUPPLEMENT FORM**

## **INSTRUCTIONS**

The following instructions are to be used in completing the Tax Credit Supplement. Unless otherwise specified, fill in all blanks (if the question is not applicable, type NA or use a zero in the appropriate space). Please note: this application form was developed using spreadsheet software and automatically calculates totals, etc. If you are manually completing the application, you will need to calculate and enter these figures.

### **SECTION A -- GENERAL PROJECT INFORMATION**

#### **Part I: Annual Credits Requested and Set-aside**

Enter the Amount of Annual Tax Credits requested. This will match the "Annual Tax Credits Requested" in Section B of this supplement. The maximum amount of tax credits that may be allocated to any one project is \$507,500.

Indicate from which set-aside the project is requesting credits. If requesting from the Non-Profit Set-aside attach documentation showing IRS non-profit approval letter, Articles of Incorporation or Partnership Agreement showing exempt purposes of the entity, and list of Board members and officers for the organization.

The Small Project Set-aside is for projects requesting \$100,000 or less in annual credit. This set-aside will be available through the first round and will then be released to the General Pool if there are credits remaining. The Small Project Set-aside equals 20% of the annual allocation received by the Montana Board of Housing (MBOH).

If the project does not qualify for either the Non-Profit or Small Project Set-asides, you must request an allocation from the General Pool.

#### **Part II: Type of Credit Requested**

Mark the appropriate boxes for the type of credit requested. It is possible that more than one type of credit is being requested. Mark all that apply. If the project consists of rehabilitation a minimum 30-year projected capital needs assessment must be attached.

#### **Part III: IRS Minimum Low-income Threshold**

Mark the appropriate IRS Minimum Threshold that the project is electing. This election is for IRS purposes and only the minimum threshold to be eligible for tax credits. The actual project beneficiaries are often much more restrictive and should be indicated in Section A - Part XI of the uniform application.

#### **Part IV: Number of Floors**

Enter the number of floors in the tallest building and if an elevator will be provided.

## **Part V: General Public**

Indicate if the project will be available to the general public. All tax credit projects must be available to the general public and cannot be restricted for a particular group (i.e. employees of a specific company). Projects can serve a particular type of tenant as long as they are a recognized group such as the elderly. As always, fair housing laws must be followed. If this is not the case, an explanation must be attached.

## **Part VI: Decent, Safe and Sanitary**

Indicate if the proposed project will be decent, safe and sanitary. All tax credit projects are required to be decent, safe, and sanitary. If this is not the case, an explanation must be attached.

## **Part VII: Qualified Census Tract / HUD Difficult to Develop Area**

Indicate if the project is located within a Qualified Census Tract (QCTs) or a HUD Difficult to Develop Area (DDAs). If the project is in a Qualified Census Tract please attach a copy of the census map that documents this. The current QCTs and DDAs are listed on an attached schedule to the Qualified Allocation Plan (QAP).

## **Part VIII: Supportive Services**

Indicate if supportive services will be provided to the tenants. If they are, indicate if the services are mandatory to live in the project and if the services are included in the tenant paid rent listed in Section C - Part IV of the Uniform Application. Describe the services that will be provided and how they will be paid for if not a part of the tenant's normal rent.

## **Part IX: Special Amenities**

List the special amenities that will be provided to the project. This will include everything that would make the project desirable to a prospective tenant such as laundry facilities, community rooms, yards, tot lot, security, etc.

## **Part X: Environmental Issues**

List all environmental issues that may effect the project such as slope, erosion, soils, floodplain, water quality, wildlife or fish habitat, wetlands, air quality, historic structures, farmland, noise, hazardous facility, airport clear zone, etc.

## **Part XI: Existing Structures**

If the project consists of existing structures indicate the building address, date last placed in service (for any type of use), and date the structures were or will be acquired. Documentation of the date each structure was last placed in service must be attached or an approved waiver of ten year rule by letter ruling from the IRS. Also, if structures have already been acquired, documentation of this acquisition must be attached.

## **Part XII: Applicant, Developer and Owner Information**

List all information requested for the above parties.

### **Part XIII: Project Participation**

Describe what roles or responsibilities that the applicant, developer, owner, and each member of the development team will assume for this project. If the applicant or developer will not retain ownership, describe the process and timing for disposition of this project.

### **Part XIV: Identities of Interest**

Does any member of the development team have any direct or indirect financial or other interest with any of the other project team members (including owner's interest in the construction company or sub contractors)? If yes, describe the level of participation and/or relationship of each.

### **Part XV: Defaults, dispositions foreclosures or non-compliance issues**

Does any member of the development team have any defaults, disposition of or status of default, foreclosure or findings of non-compliance for any of the projects in which they have been involved? If yes, describe situation.

### **Part XVI: Lawsuits**

Does any member of the development team have any pending lawsuits or adversely settled lawsuits against them or with any of the projects in which they have been involved? If yes, describe situation.

### **Part XVI: Development Team Qualifications and Past Projects**

Attach documentation showing development team qualifications and all past projects in which team members have participated.

## **SECTION B -- TAX CREDIT CALCULATION**

### **Part I: Grand Total Project Costs**

The Grand Total Project Costs number should be transferred from the Uniform Application, Section C - Financial, Part II - Uses of Funds on the last past page and line titled "Grand Total Project Cost".

### **Part II: Less Ineligible Costs**

The Ineligible Costs which are listed in the Uniform Application, Section C - Financial, Part II - Uses of Funds should be transferred to this section.

Tax Credits require that costs which are not both capitalized and depreciated (i.e. land is capitalized but not depreciated) need to be subtracted from the total costs to arrive at Eligible Basis. The specific line items listed in this section are traditionally ineligible, however, there may be other costs which are ineligible that should be listed separately on the lines provided.

### **Part III: Total Eligible Basis**

Total Eligible Basis = Grand Total Project Costs less Ineligible Costs. This should be listed in the first box as a total. It should then be either transferred as the total or split between either the 4% credit and/or the 9% credit. For the definition of the 4% and 9% credit please refer to the "Summary of the Low Income Housing Tax Credit" which is attached to the Qualified Allocation Plan.

### **Part IV: Annual Tax Credit Calculation**

The "Total Eligible Basis by type will then be reduced by grants, non-qualifying non-recourse financing, Historic Tax Credits and other non-qualified costs to arrive at the Adjusted Eligible Basis.

If the project is located within a Qualified Census Tract (QCT) or HUD Difficult to Develop Area (DDA), it is eligible to receive an increase in basis of 30%. If the project qualifies, multiply the Adjusted Basis by 130%, if it does not, multiply the Adjusted Basis by 100%.

The Adjusted Eligible Basis (which now includes the adjustment for QCT or DDA) is multiplied by the Applicable Fraction. The Applicable Fraction is the smaller of the Unit Fraction or Square Foot Fraction which can be found in the Uniform Application, Section B - Project Information, Part X - Project Uses. This will calculate your Qualified Basis.

The Qualified Basis is then multiplied by the type of credit being requested (4% or 9%) or the effective rate for each type of credit to obtain the Annual Tax Credits Eligible to Receive. When applying for tax credits, a project is allowed to request credits, at application, based on 4%, 9% or the effective rate. However, if the project is approved and proceeds to completion, the project will only receive credits based on the effective tax credit rate. This rate can be established, at the option of the project, at either reservation or placed in service.

The Annual Tax Credits Requested (by type) should then be added together to obtain the Annual Credits Requested (combined).

The Application Fee can then be calculated by multiplying the Annual Tax Credit Requested (combined) by 1.5%. A check for this amount made payable to the Montana Board of Housing should then be attached to this application in the order as directed by the cover sheet to the Tax Credit Supplement Application. The remaining 3% fee will be collected when a reservation agreement is executed.

NOTE: Federal law mandates that, although a proposed development may be technically eligible for a credit amount, the state housing credit agency (MBOH) may not allocate more credit than is necessary for the financial feasibility of the development and its viability as a qualified low income housing project throughout the compliance period.

## **SECTION C -- COST LIMITATIONS AND REQUIREMENTS**

### **Part I:**

Part I is to be used to gather the amounts being proposed for each category that has a limit or requirement as defined in the Qualified Allocation Plan. This part will also calculate the basis by which each limit is determined.

Indicate "Yes" or "No" if there is an Identity of Interest between the developer and contractor. An Identity of Interest is defined as a financial, familial, or business relationship that permits less than arms length transactions. This includes, but is not limited to, existence of a reimbursement program or exchange, common financial interests, common officers, directors, or stockholders, or family relationships between officers, directors, or stockholders.

Enter total number of units in project including low income units, market rate units and manager units.

Next, transferred from the Uniform Application, Section C - Financial, Part II - Uses of Funds the amounts that have a limit or requirement. These are general requirements, contractor overhead, contractor profit, developer fees, operating reserves and replacement reserves.

The Total Construction Cost Calculation is calculated by adding together the line items listed. These numbers should be transferred from the Uniform Application, Section C - Financial, Part II - Uses of Funds. This will then be used as the basis to calculate the requirement for general requirements, contractor overhead and contractor profit.

The Total Adjusted Project Cost is calculated by reducing the Grand Total Project Cost by Administration, Existing Structures, Contractor Profit and Developer Fees. These numbers should be transferred from the Uniform Application, Section C - Financial, Part II - Uses of Funds. This will then be used as the basis to calculate the requirement for the developer fees.

The Total Operating, Replacement Reserve and Debt Service Cost is calculated by adding together the line items listed. These numbers should be transferred from the Uniform Application, Section C - Financial, Part I - Sources of Funds and Part V - Annual Operating Expenses. This will then be used as the basis to calculate the requirement for the operating reserve and replacement reserve.

### **Part II:**

Part II will determine if the General Requirement limit is met. Transfer the General Requirement and Total Construction Costs from Part I of this section. Then reduce the Total Construction Costs by the General Requirements. Divide the General Requirements by the Adjusted Total Construction Costs and compare this percentage to the Maximum Cost Limit. If the project is not equal to or less than the maximum limit, the application should be adjusted to correct the situation.

### **Part III:**

Part III will determine if the Contractor Overhead limit is met. Transfer the Contractor Overhead and Total Construction Costs from Part I of this section. Divide the Contractor Overhead by the Total Construction Costs and compare this percentage to the Maximum Cost Limit. If the project



is not equal to or less than the maximum limit, the application should be adjusted to correct the situation.

#### **Part IV:**

Part IV will determine if the Contractor Profit limit is met. Transfer the Contractor Profit and Total Construction Costs from Part I of this section. Divide the Contractor Profit by the Total Construction Costs and compare this percentage to the Maximum Cost Limit. If the project is not equal to or less than the maximum limit, the application should be adjusted to correct the situation.

#### **Part V:**

Part V will determine if the Developer Fee limit is met. Transfer the Total Adjusted Project Cost, Developer Fees (new const & rehab) and Developer Fees (acquisition) from Part I of this section. Divide the Developer Fees (new const & rehab) and Developer Fees (acquisition) by Adjusted Project Cost and compare these percentages to the Maximum Cost Limit. If the project is not equal to or less than the maximum limits, the application should be adjusted to correct the situation.

#### **Part VI:**

Part VI will determine if the Operating Reserve requirement is met. Transfer the Total Annual Operating, Replacement Reserves and Debt Service Cost and well as the Operating Reserve from Part I of this section. Divide the Total Annual Operating, Replacement Reserves and Debt Service Cost by three (3) and compare this to the Operating Reserve amount. If the project does not meet the minimum requirement, the application should be adjusted to correct the situation.

If a letter of credit or developer guarantee will be used to meet this requirement, it should be noted in this section with supporting documentation being attached.

#### **Part VII:**

Part VII will determine if the Replacement Reserve requirement is met. Transfer the Annual Replacement Reserve and the Number of Units from Part I of this section. Divide the Annual Replacement Reserve by the Number of Units and compare this to the minimum requirement. If the project does not meet the minimum requirement, the application should be adjusted to correct the situation.

#### **Part VIII:**

Part VIII will calculate the Net Proceeds from the sale of the tax credits. Transfer the Gross Proceeds from the Sale of the Tax Credits from the Uniform Application, Section C - Financial, Part I - Sources of Funds. Then reduce the Gross Proceeds by the costs the project would not have incurred if had not used Tax Credits as a funding source. These costs will be transferred from the Uniform Application, Section C - Financial, Part II - Uses of Funds. This will be analyzed for reasonableness to determine if tax credit proceeds are being used effectively.

## **Part IX:**

Part IX defines how Project Costs and Operating Expenses will be evaluated. Per unit costs, cost per square foot, operating expenses and vacancy rates will be evaluated for reasonableness, taking into account the type of housing, unit sizes, intended target group and area of the state and community where the project will be located. They will be compared to existing and proposed projects with similar characteristics.

## **SECTION C -- APPLICATION; INDEMNIFICATION; CERTIFICATION**

This page must be reviewed, signed and notarized and submitted with the application.

## **EXHIBIT INSTRUCTIONS AND REQUIREMENTS**

### **Exhibit A - Information Release Form**

All information must be completed and authorized signatures must be obtained from each participant. A list of all principal owners or officers for each entity with social security numbers for each must be attached. This may be used to obtain credit bureau reports for each principal.

### **Exhibit B -- Market Study Requirements**

Each project submitting an application must attach a "Market Study". Development Section Criteria #10 outlined in the Qualified Allocation Plan requires a project to have demonstrated community support which is project specific and addresses how the project meets the needs of the community. The combination of these two sources will be used to document how a project meets the needs of the community and will assist in determining the overall feasibility of the project.

Refer to Exhibit B for Market Study requirements.

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### **EXHIBIT B – MARKET STUDY REQUIREMENTS**

Each project submitting an application must attach a “Market Study”. Development Section Criteria #10 outlined in the Qualified Allocation Plan requires a project to have demonstrated community support which is project specific and addresses how the project meets the needs of the community. The combination of these two sources will be used to document how a project meets the needs of the community and will assist in determining the overall feasibility of the project.

The market study must be less than one (1) year old at the time of application. Studies older than one (1) year must be updated.

The market study must include the following at a minimum:

- 1 A description of the proposed site;
  - physical features of site and surrounding parcels
  - positive and negative attributes of the site should be discussed
  - curb appeal of the site, surrounding land uses, the site’s physical relation to surrounding roads, transportation, amenities, employment, services, the condition of the physical structures/neighborhoods surrounding site.
  - pictures of the site
  - compatibility of project with surrounding land uses and neighborhood characteristics
- 2 A description of the proposed project;
  - bedroom mix
  - target income group
  - rents
  - utility allowance (describe type and use of utility such as gas or electric and who will pay for each utility)
- 3 Market area (geographic definition and analysis);
  - map clearly identifying project location, closest shopping areas, schools and employment centers and other amenities
  - map clearly identifying market area
  - detailed justification of how market area was determined and description of methodology and reasoning used
- 4 Market area demographic data;
  - population by age cohorts
  - number of households by income grouping, and household size
  - past and future population growth patterns, specifically relating to the populations proposed for the development
  - assessment of the overall economy including a sense of whether overall employment is expanding or contracting, labor force trends and wages
- 5 Project specific demographic data and demand;

- new units required (by bedroom size and total) in the market area (include explanation of how this was calculated)
- number of households in the market area which are income eligible and can afford to pay the rent (distinguish between actual project targeting i.e. 50% and 60% AMI) (assume no households are able to pay more than 35% of gross income towards total housing expense) (include explanation of how this was calculated)
- new units required (by bedroom size and total) in the market area for the households the project is targeting (i.e. 50% and 60% AMI) (include explanation of how this was calculated)
- capture rate for each bedroom size as well as the project overall area (include explanation of how this was calculated)
- absorption time schedule (estimated rent-up period)
- description of the effect of the proposed project on the market
- analysis of voucher and certificates available in the market area
- description of any barriers to entry which can be anything which makes it difficult to build such as high land and building costs, scarcity of zoned sites with utilities, difficult or extended public approval process, etc.

6 Comparable developments in the market area;

- must include existing projects, projects currently under construction, and projects slated to begin construction within the year
- map showing each project in relation to proposed project
- all comparable projects must be visited in person
- each project should list the following information:
  - description and location (address)
  - breakdown of unit sizes by bedroom count
  - monthly rents and what utilities are included in rent
  - project age
  - description of amenities
  - concessions given if any
  - current vacancy rates broken out by bedroom size
  - number of units receiving rental assistance and if project or tenant based
  - contact and phone number
- attach a current photograph
- federally or state assisted projects should be identified
- family projects are not comparable to elderly and vice versa
- discuss at what percent the rents for the proposed project are below market rents

7 Interviews;

- summarize results of formal or informal interviews with property managers, town planning officials or anyone with relevant information relating to the proposed development or market area

8 Analysis of practically available operating expenses and turnover rates of comparable properties in the market area;

9 Projected operating funds and expenses, when available at the time of the study;

10 Market analyst qualifications;

- statement of competence
- resume' and supporting documentation of qualifications
- the market study must be prepared by an arms length party. A non arms length party is defined as having identities of interest defined as a financial, familial, or business relationship that permits less than arms length transactions which includes, but is not limited to, existence of a reimbursement program or exchange, common financial interests, common officers, directors, or stockholders, or family relationships between officers, directors, or stockholders.

12 The Market Analysis will include a coversheet that identifies:

- Project/unit amenities.
- Profit or non-profit status.
- Total years of commitment (15 years plus number of years if extended use).
- Selection of target audience (20 –50)(40-60).
- If targeted for eventual home ownership, the year in which this would occur.
- The average (comparable) market unit rents in the immediate area.
- Vacancy rate.
- Capture rate.
- Absorption rate
- Units needed in the market area.

(Include reference to page and paragraph where each item has been analyzed to establish the conclusion for the items listed above.)

If the above requirements are not substantively met and/or the Board determines that the market analyst is not qualified to complete the market study, the application will be denied and returned for possible submission in a future round.

If any of the above information is not practically available, this will not be cause for immediate denial. However, the market analyst must explain why such information is not available and will be considered on a case-by-case basis.

**TAX CREDIT SUPPLEMENT**  
**EXHIBIT B -- MARKET ANALYST SIGNED STATEMENT**

(this form must be signed, notarized and attached to the market study)

"I affirm that I, or an individual employed by my company, have made a physical inspection of the market area and that information has been used in the full study of the need and demand for new rental units. To the best of my knowledge, the market can support the demand shown in the study. I understand that any misrepresentation of this statement may result in the denial of further participation in the Montana Board of Housing's programs. I also affirm that I have no interest in the project and have an arms-length relationship with the ownership entity and my compensation is not contingent on this project being funded."

\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

Legal Name of Market Analyst

By: \_\_\_\_\_

Signature \_\_\_\_\_

Title \_\_\_\_\_

State of \_\_\_\_\_ )

)ss

County of \_\_\_\_\_ )

On this \_\_\_\_\_ day of \_\_\_\_\_, in the year \_\_\_\_\_, before me, \_\_\_\_\_, a notary public in the for said state, personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the within instrument, and acknowledged to me that s/he executed the same.

\_\_\_\_\_  
NOTARY PUBLIC in and for the State of

\_\_\_\_\_, residing at

\_\_\_\_\_  
My commission expires \_\_\_\_\_.